



THE CITY OF SAN DIEGO **MANAGER'S REPORT**

DATE ISSUED: November 8, 2002 REPORT NO: 02-264

ATTENTION: Honorable Mayor and City Council
Docket of November 18, 2002

SUBJECT: Library System Improvements Program

REFERENCE: Manager's Report No. 02-159 Dated July 10, 2002

SUMMARY

Issues:

1. Should the City Council approve the conceptual financing plan for the construction and improvement of Library System facilities?
2. Should the City Council direct the City Manager, City Auditor and Comptroller, and the City Attorney to proceed to prepare the necessary documents to authorize a Lease Revenue financing program, currently estimated to total \$191.4 million, in June 2004 for the Library System Improvements Program?
3. Should the City Council authorize the City Manager and City Auditor and Comptroller to appropriate and allocate to projects, as needed, an amount not to exceed \$16,904,138 from Fund 102216 for interim Capital Improvement Program expenses related to the Library System Improvements Program to be reimbursed from the first phase of the bonding financing?
4. Should the City Council amend City Council Policy 100-19, the Annual Appropriation for Library Maintenance, to authorize the City Auditor and Comptroller to establish a separate fund, the New and Expanded Library Operation and Maintenance Fund, for the purpose of funding operation and maintenance expenses related to new and expanded Library System facilities? Monies under the current Library Ordinance, which are in

excess of the requirements of the Existing Library System Operating and Maintenance requirements, would be transferred to the New and Expanded Library Operation and Maintenance Fund on an annual basis. These funds would be used to finance the new and expanded library system facility operation and maintenance requirements in accordance with the plan as estimated in **Attachment F**.

5. Should the City Council adopt a resolution declaring the City's intent to reimburse itself from bond proceeds for certain contributions to the Library System Improvements Program with respect to the Library System Improvements Program bonds?

Manager's Recommendations:

1. Approve the conceptual financing plan for the construction and improvement of Library System facilities.
2. Direct the City Manager, City Auditor and Comptroller, and the City Attorney to proceed to prepare the necessary documents to authorize a Lease Revenue financing program, currently estimated to total \$191.4 million, in June 2004 for the Library System Improvements Program.
3. Authorize the City Manager and City Auditor and Comptroller to appropriate and allocate to projects, as needed, an amount not to exceed \$16,904,138 from Fund 1002216 for interim Capital Improvement Program expenses related to the Library System Improvements Program to be reimbursed from the first phase of bond financing.
4. Amend City Council Policy 100-19, the Annual Appropriation for Library Maintenance, to authorize the City Auditor and Comptroller to establish a separate fund, the New and Expanded Library Operation and Maintenance Fund, for the purpose of funding operation and maintenance expenses related to new and expanded Library System facilities.
5. Adopt a resolution declaring the City's intent to reimburse itself from bond proceeds for certain contributions to the Library System Improvements Program with respect to the Library System Improvements Program bonds.

Other Recommendations: None

Fiscal Impact: Based on the City Council's review of the Library System Improvements Program and the adoption of a defined list of projects, the Engineering and Capital Projects Department developed a scope of work, timeline and costs associated with each individual project. This engineering assessment enabled the financing staff to determine the cash flow requirements and establish a financing schedule, including appropriate projected bond issuance dates, to meet the

funding needs of the program. The overall financing plan is predicated upon the cash flow requirements of the overall Library System Improvements Program.

The total estimated project cost for the library facilities scheduled for construction or improvement is approximately \$312.3 million. Of the \$312.3 million overall project total, \$149.5 million is associated with construction and improvements for the Main Library, and \$162.8 million is associated with various branch library improvements. **Attachment A** reflects the sources of funds to pay for this construction.

It is estimated that approximately \$177.7 million of the overall \$312.3 million improvement program amount will be funded with a multi-phased lease revenue bond financing totaling \$191.4 million. Annual bond payments are currently estimated to be approximately \$14 million at current interest rates. Consistent with the proposed financing plan for the Library System Improvements Program, revenues in amounts equivalent to certain transient occupancy tax ("TOT") revenues and receipts received under the Master Settlement Agreement with the tobacco industry ("TSR") will be allocated annually, with other balances available, sufficient to meet the annual bond payments on the Library System Improvements Program bonds. The revenues available to meet bond payments in Fiscal Year 2005 are \$7.9 million; the estimated annual bond payment is \$6.3 million.

The balance of the program costs estimated at \$134.6 million will be paid from other revenue sources, including contributions from the Redevelopment Agency, development impact fees, facilities benefit assessments, federal funds, other City funds, and grants/private donations.

The Engineering and Capital Projects Department will be adding additional staff to manage the 24 library capital improvement projects approved by the City Council on July 30, 2002. The staffing costs have been incorporated into the program expenditure projections of the construction cash flows. Per the budget appropriation requirement, the additional staffing needs will be presented during the Fiscal Year 2004 City Council Budget Review.

Environmental Impact: An Environmental Impact Report ("EIR") was certified for the proposed Main Library. In addition, appropriate environmental review has been performed for several of the branch library components. The actions discussed in this report are exempt from the California Environmental Quality Act ("CEQA") pursuant to the State CEQA Guidelines Section 15061 (b) (3). This determination is predicated on Section 15004 of the Guidelines, which provides direction to lead agencies on the appropriate timing for environmental review. In addition, these actions do not constitute a "project" under CEQA. Other individual library projects will require further review under the provisions of CEQA prior to implementation.

BACKGROUND

On July 30, 2002, the City Council approved the facilities to be included in the Library System Improvements Program, the timeline and the guiding principles for project development, and directed the City Manager to return to the Council in the fall of 2002 with a proposed financing plan for the Library System Improvements Program.

As part of the actions taken on July 30, 2002, the City Council adopted Resolution R-296900, authorizing modification to the list of library facilities listed in the City Manager's Report 02-159. These modifications included increasing the square footage of the proposed expansions to the North Park Branch and the Rancho Bernardo Branch and adding the expansion of the Kensington/Normal Heights Branch. In addition, the modifications included moving the Mission Hills/Hillcrest Branch Library land acquisition from 2004 to 2003; moving the priority of the Pacific Beach/Taylor Branch Library from priority #15 to priority #22, with a footnote that construction will be accelerated if privately funded; and moving South University City Branch Library from priority #22 to priority #15 as reflected on attachment #4 within City Manager's Report 02-159. In addition to the listed projects, the City Council authorized a site feasibility study for the University Heights Branch library. The estimated \$250,000 in costs for the study will be funded from the savings generated from value engineering of the North Park Branch Library project. **Attachment B** is the revised prioritized list and summary of the estimated project costs of the library facilities. The revised timeline is shown in **Attachment C**. The estimated funding sources and individual project allocations are shown in **Attachment D**.

DISCUSSION

Proposed Financing Plan

Based on the Library System Improvements Program adopted by the City Council on July 30, 2002, a multi-year construction program that extends into Fiscal Year 2011 was formulated. An engineering assessment of the costs, project schedule and program funding requirements have enabled the financing staff to determine the program cash flow requirements and establish a financing schedule, including appropriate bond issuance phases and dates, to meet the overall funding needs of the program.

Attachment A reflects the sources of funding for the Library System Improvements Program. The proposed bond funding component of the overall funding plan is estimated to be approximately \$178 million. The balance of program costs will be paid from other revenue sources, including contributions from the Redevelopment Agency, development impact fees, facilities benefit assessments, federal funds, other City funds, and grants/private donations. Some of these "other revenues" are dedicated to, and can only be used for, specific library facilities of the program. Since some of these "other revenues" are dedicated to specific library facilities, their availability will affect the construction timeline of the facilities funded from these sources.

Based upon current estimates and current market conditions, the gross bond issuance size to meet the program needs is projected to be approximately \$191.4 million. This issuance is expected to provide approximately \$178 million in construction proceeds, and an amount sufficient to fund the debt service reserve and all related costs of issuance, including but not limited to fees associated with underwriting, bond counsel, and trustee services. Annual bond payments on an estimated \$191.4 million bond issuance are estimated to be approximately \$14 million at current interest rates. The actual interest rate and annual bond payment will be determined at the time of

the sale. The bond issuance is proposed to be accomplished in three phases as outlined in the chart below:

Projected Bond Issuance Schedule

	Bond Issue #1	Bond Issue #2	Bond Issue #3	Total
Issuance Date	June 2004	March 2006	June 2008	
Total Bond Issuance	\$87.5 million	\$86.3 million	\$17.6 million	\$191.4 million
Net Bond Proceeds	\$81.2 million	\$80.3 million	\$16.3 million	\$177.7 million
Estimated Annual Payment	\$ 6.3 million	\$ 6.3 million	\$ 1.3 million	\$ 13.9 million
Bond Rate	5.86%	5.86%	5.86%	

Per the applicable laws governing tax-exempt municipal financings, the City must be reasonably certain that most of the bond proceeds will be spent within three years of the bond issuance. Thus it is anticipated that the Library System Improvements Program will require the issuance of three series of bonds, with the first issuance expected to occur in June 2004. Issuing bonds as funds are needed will enable the City to meet Internal Revenue Service's ("IRS") arbitrage rebate spending exceptions. Even if IRS requirements were not an issue, multiple bond issuances should also help the City lower its cost of borrowing. At this time, interest earnings on construction fund proceeds are substantially lower than the borrowing cost on the bonds.

The recommended financing structure is a Lease Revenue Bond which financing structure has been successfully used and validated for the Convention Center Expansion and Ballpark and Redevelopment Projects. A Lease Revenue Bond is based on a lease arrangement between two entities: a governmental entity and, typically, a non-profit agency or joint powers authority which issues the bonds. In the case of the Library System Improvements Program, it is recommended that the Public Facilities Financing Authority of the City of San Diego ("PFFA"), a joint powers authority, be the issuing entity for the Library System Improvements Program bonds.

Under the proposed financing plan, amounts equivalent to certain transient occupancy tax ("TOT") revenues and annual receipts received under the Master Settlement Agreement with the tobacco industry ("TSR") will be allocated annually, with other balances available, sufficient to meet the annual bond payments on Library System Improvements Program bonds. In Fiscal Year 2005, amounts equivalent to the TOT revenues are estimated to be \$5.6 million and the TSR revenues are estimated to be \$2.2 million. The annual bond payment is estimated to be \$6.3 million. These allocations are shown on **Attachment E**, the Financing Proforma.

Library Operating System Costs

In addition to projecting the construction costs of the new Library System Improvements Program, the operation and maintenance costs of the new facilities were also projected over the 30-year financing program. The ongoing maintenance and operating expense for existing library system were also forecasted. These expenditure projections were compared to the estimated Annual Appropriation for Library Maintenance, which the City Manager includes in the Proposed Budget annually in accordance with Council Policy 100-19.

Section 22.0228 of the San Diego Municipal Code requires the City Manager's annual budget proposal to include funding for library operations, maintenance and supplies as follows: a) for Fiscal Year 2002, an amount equal to at least 4-1/2% of the proposed General Fund budget for Fiscal Year 2002; b) for Fiscal Year 2003, an amount equal to at least 5% of the proposed General Fund budget for Fiscal Year 2003; c) for Fiscal Year 2004, an amount equal to at least 5-1/2% of the proposed General Fund budget for Fiscal Year 2005; and d) for each Fiscal Year thereafter, an amount equal to at least 6% of the proposed General Fund budget for each such Fiscal Year. The City Council shall consider the proposed appropriation for the Library Maintenance in considering the passage of the Annual Appropriation Ordinance each year. This has been embodied into City Council Policy 100-19, Annual Appropriation for Library Maintenance.

The analysis shows that there are sufficient monies available from the Annual Appropriation for Library Maintenance, to fund the maintenance and operation of the newly constructed library facilities, if funds are carried forward when there are balances available. **Attachment F** reflects this analysis. In order to ensure that there are balances available to fund the operation and maintenance costs of the newly constructed facilities, it is proposed that City Council Policy 100-19 be amended to authorize the City Auditor and Comptroller to establish a separate fund, the New and Expanded Library Operation and Maintenance Fund. The existing Library system budget would follow the budget plan on **Attachment F**. The Auditor would transfer the fund balance each year into the Fund for the purpose of funding new facility operation and maintenance as the facilities open in the future. A portion of the Fund would be available on an annual basis for one-time expenditures in the library system. The City Manager would add the new library facilities annually to the library budget General Fund Budget, and the City Auditor would transfer monies out of the Library and Operation and Maintenance Fund consistent with the Budget.

Reimbursement Resolution

Section 1.150-2 of the United States Treasury Regulations requires that a governmental entity planning to use bond proceeds to reimburse itself for project related expenditures made prior to the issuance of bonds formally declare its reasonable official intent to use bond proceeds for that purpose. Since under the proposed financing plan, the City, or Authority issuing bonds on behalf of the City, expects to pay certain project-related expenditures prior to the issuance of bonds and plans to use bond proceeds to reimburse itself for those expenditures, it is necessary that a statement of official intent to use bond proceeds for that purpose be made. The adoption of the proposed Reimbursement Resolution would satisfy this requirement.

Interim Funding Needs

According to the proposed financing plan, the first bond issuance is projected to occur in June 2004. In order to meet the Library System funding needs prior to the first phase of financing, it is recommended that funds be advanced, on an as needed basis, to the individual Capital Improvement Projects. In order to maintain the timeline of the Library System Improvements Program approved by the City Council it is estimated that approximately \$16.9 million

(\$7.7 million in Fiscal Year 2003 and \$9.2 million in Fiscal Year 2004) would have to be advanced prior to the June 2004 bond issuance. These advanced funds will be in addition to the identified sources of funds detailed on **Attachment D**, except for Bond Proceeds.

Following is the breakdown of the proposed uses of the \$16.9 million in interim fund advances: \$7.8 million - land acquisition; \$7.2 million - design professional services; \$1.1 million - design pre-engineering; \$500,000 - construction professional services; and \$300,000 - miscellaneous contract services.

It is anticipated that approximately \$5.3 million of the interim funding will be associated with the Main Library Project. Included in this \$5.3 million are expenditures related to the third phase of architectural design services (\$1.5 million) and chilled water line extension to the Main Library and other miscellaneous engineering costs (\$500,000). The remainder of the \$16.9 million in interim fund advances, approximately \$11.6 million, would be associated with various branch library improvements under the categories outlined above.

Under the proposed financing plan, the interim fund advances are projected to be met with the accrued balances available from the annual allocations equivalent to certain TOT revenues to the Library System Improvements Program. As discussed above, the City funds advanced to the projects will be reimbursed with bond proceeds once the bonds are issued in June 2004.

LEED Certification (Green Building Policy)

Implementation of the LEED Rating System for the proposed library facility improvements requires an increase in funding of 8% to 12% respectively for design and construction. These increased costs have been included in the financing plan.

The adoption of the LEED “Silver” rating for the proposed library facilities is projected to achieve payback within 10 years, thereafter resulting in a projected average utility cost saving of an additional 15% to 17% over the life cycle (40 years or more) of the facility.

Guiding Principles

On July 30, 2002, the following principles were formally adopted by the City Council, which were used in the development of the capital program and the financing plan:

1. 15,000 square feet should be the minimum size of a branch library in order to house meeting rooms, computer labs, separate areas for children and teens, and the other functions of a modern branch library.
2. There will be at least one larger library facility in each Council District.
3. Community service centers should be constructed at the larger branch libraries where feasible.
4. The projects selected on the adopted improvement list should be finished before other projects are selected, unless other projects are fully funded by non-City sources.

5. If other funds become available which free up money programmed for an improvement project, the freed up monies should go to other projects already on the adopted improvement list.
6. In order to meet the Mayor's goal of pursuing energy independence, the City will implement the U.S. Green Building Council's LEED Rating System for buildings with a Silver Rating goal for as many projects as is feasible.

CONCLUSION

On July 30, 2002, the City Council authorized 24 specific capital improvement projects related to the construction and improvement of library facilities throughout San Diego. Approval of the financing plan presented in this report is the next step to completing the Library System Improvements Program. Amendment of Council Policy 100-19 provides for the creation of a new fund to reserve fund balances in the Library Appropriation Ordinance for new facility maintenance and operation over the next 30 years. Approval of the Reimbursement Resolution would allow the City to reimburse itself from bond proceeds for project related expenditures incurred prior to the bond issuances.

ALTERNATIVES

Do not approve the financing plan for the funding of the Library System Improvements Program and related actions.

Respectfully submitted,

Approved: Bruce Herring
 Deputy City Manager

Approved: Patricia T. Frazier
 Deputy City Manager

Approved: Ed Ryan
 City Auditor and Comptroller

Attachment A	<u>Library System Improvements - Sources of Funds</u>
Attachment B	<u>Prioritized List and Summary of Projected Costs</u>
Attachment C	<u>Library System Improvements - Design and Construction Milestones</u>
Attachment D	<u>Library System Improvements - Funding Sources and Project Allocations</u>

Attachment E
Attachment F
Attachment G

Library System Improvements - Financing Pro forma
Library System Operations & Maintenance
City Council Policy 100-19